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TESTIMONY OF REP. CHRISTOPHER COX
BEFORE THE SENATE COMMERCE COMMITTEE

ON EXTENDING THE MORATORIUM ON
NEW, MULTIPLE, AND DISCRIMINATORY INTERNET TAXES

Thank you for allowing me to testify this morning on our common interest in protecting the digital economy—-and the tax revenues it generates for federal, state, and local government budgets—-from special taxation.

I'm here today to deliver my strong support for S. 2255, the legislation introduced by Chairman McCain, and sponsored by Senators Ron Wyden, Spence Abraham, and Pat Leahy to extend the moratorium on new, multiple, and discriminatory Internet taxes.

In the House, we hope to bring similar legislation to the floor of the House <u>before Memorial Day</u>.

I'm pleased to be back before the Commerce Committee, which three years ago held the first-ever Congressional hearing on the issue of Internet taxation. At the time, our purpose was to nip in the bud the incipient efforts of some 30,000 taxing jurisdictions to lay claim to a piece of the Internet. Back then, this was a very real threat. News magazines warned that tax collectors around the country were looking to "shake down the Net."

- Internet access services were a big target for taxes, as more and more Americans were connecting to the Internet.

- Multiple taxation was a big concern, given that the Internet's very design—-its decentraliz nature—-makes Internet transmissions vulnerable to taxation by different jurisdictions.

- Discriminatory taxation was a real threat, too, as a number of academics were promotin the "bit tax," a tax system designed to burden only electronic commerce.

The Internet Tax Freedom Act stopped these special types of taxes, and ensured that the

Internet would not be caught up in an inconsistent patchwork of taxes by the United States' 30,000 taxing jurisdictions.

The final tax moratorium that this Committee helped write does not overreach. It stops *new* taxes on Internet access, and *multiple* and *discriminatory* taxes on products ordered over the Internet—but does not bar *all* Internet taxes. This fundamental structure is ideally suited to become a long-term—if not permanent—policy. Whatever disagreements there might be on other aspects of the Internet tax debate, surely we can all agree—as a starting point—that the Internet should *not* be subject to new, multiple, or discriminatory taxes.

This principle makes sense independent of whatever rules Congress or the U.S. Supreme Court may adopt on "nexus"—whether we have the existing physical-presence rule, as outlined in the 1967 *Bellas Hess* case and the 1992 *Quill* case, or some new rule. Whatever the standard, surely there is agreement that all sellers should be subject to the same standard. None of us wants a regime that subjects the same seller differently if he sells by catalog or over the Internet.

As you all know, the version of the Internet Tax Freedom Act that became law lasts only three years—-and then expires. The temporary nature of the moratorium was something that many of us accepted out of respect for the concerns of state and local government leaders, who issued dire warnings about the effect the bill might have on their budgets. But now, as we have reached the half-way point of the moratorium, the data is rolling in about the real effects that the moratorium has had:

- Internet sales are up, way up. For the 1999 holiday season alone, Americans bought $10 billion worth of goods over the Internet.

- "Brick and mortar" sales are up, too. The International Council of Shopping Centers reports that 1999 holiday sales at shopping malls were up 8 percent over 1998. The Internet has also helped traditional retailers expand beyond Main Street to sell to new markets.

- Taxes collected by state and local governments are up—-way up. In my state of California, sales tax collections for 1999 were up a whopping 11 percent from 1998.

- The growth in Internet commerce and taxable sales has fattened state budgets, which ended fiscal 1999 with a combined $35 billion in surpluses.

- The federal government has benefited, too: Total federal tax collections grew by $118 billion from 1998 to 1999.

The facts are in, and conclusively so: the Internet economy—-the "new economy"—-is generating tremendous tax revenue for federal, state, and local governments. The Internet is opening up new markets for Main Street businesses and contributing to new jobs, better wages, and a stronger economy--all of which boost tax receipts.

These are signs that the current tax policy is working--not only for consumers, but also for states, counties, and cities whose power to tax has been modestly constrained by the Internet Tax Freedom Act. Every level of government has a stake in ensuring that the Internet will continue to propel the new economy that is contributing to record tax receipts at every level of government.

I'd like to conclude with a brief anecdote:

More than a century and a half ago, Michael Faraday invented the first electric motor--the dynamo--by rotating a current-bearing wire around a suspended magnet. He became so well known for this invention that, one day, he was granted an audience before King William IV. After Faraday described what he had developed, the King looked at him and asked: "But, after all, what use is it?"

Faraday came back with a quick response. "Only time will tell, but of this I am certain: Someday, sir, you will tax it."

Developing new taxes for new technologies need not be an irresistible temptation. I commend the Chairman and the members of this Committee for their interest in showing that the government can indeed learn the lessons of the past, and that we can protect new technology—-and the new economy—-from the very real dangers of predatory taxation.

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